

Message Text

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PAGE 01 STATE 115547
ORIGIN SS-25

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DRAFTED BY EB:JLKATZ:LH
APPROVED BY EB:JLKATZ
S/S:LMACFARLANE
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WHITE HOUSE - SCHLESINGER
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TO AMEMBASSY OTTAWA PRIORITY

C O N F I D E N T I A L STATE 115547

EXDIS

E.O. 11652: GDS

TAGS: ENRG; CA

SUBJECT:NATURAL GAS EXPORT PRICES

1. CANADIAN EMBASSY ENERGY COUNSELOR CHAPPELL TODAY PRESENTED TO KATZ ON CONFIDENTIAL BASIS FOR COMMENT COPY OF NEB REPORT ON NATURAL GAS EXPORT PRICING. COVERING LETTER NOTES THAT "IT IS NOT YET FIRM AS TO HOW THE GOVERNMENT WILL PROCEED WITH THE REPORT".
2. REPORT RECOMMENDS INCREASE OF ALL LICENSES EXCEPT GL-29 (BOISE CASCADE) TO CANADIAN DOLLAR EQUIVALENT OF \$2.25 (US). CURRENCY EXCHANGE RATE ADJUSTMENT WILL BE MADE MONTHLY ON BASIS OF AVERAGE DAILY BUYING RATES FOR THE MONTH. RECOMMENDED EFFECTIVE DATE FOR NEW PRICES IS 3 MONTHS AFTER DATE OF ANNOUNCEMENT BY GOVERNOR IN COUNCIL. RECOMMENDED PRICE INCREASES EXPECTED GENERATES \$294 MILLION
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ADDITIONAL REVENUE WITH TOTAL VALUE CANADIAN NATURAL GAS EXPORTS TO ABOUT \$2.1 BILLION ANNUALLY. NEB EXPRESSES OPINION THAT COST TO CANADIANS OF IMPORTING ENERGY AT WORLD PRICES SHOULD BE CONSIDERED IN SALE OF CANADIAN ENERGY TO EXPORT MARKETS. BOARD HAS CALCULATED COST OF DISPLACING CRUDE OIL IMPORT INTO EASTERN CANADA WITH NATURAL GAS NOW BEING EXPORTED TO US AS FACTOR IN DETERMINING APPROPRIATE

SELLING PRICE FOR CANADIAN NATURAL GAS. THE WEIGHTED

AVERAGE BOARD OF VALUE FOR EXPORT GAS BASED ON THIS
CALCULATION IS \$2.28 FOR FCF (CDN).

3. KATZ SAID THAT HE DID NOT WISH TO COMMENT ON REPORT
IN DETAIL AT THIS TIME AND THAT WE WOULD PRESENT
CONSIDERED COMMENTS LATER. ON PRELIMINARY BASIS, HOWEVER,
HE NOTED US CONTINUED TO OBJECT TO DISCRIMINATORY
CANADIAN PRICING. IN THIS CONNECTION HE ASKED WHEN NEW
CANADIAN DOMESTIC NATURAL GAS PRICE WOULD BE ANNOUNCED
AND WHETHER THIS WOULD INCREASE OR WIDEN DISCRIMINATION.
CHAPPELL DID NOT HAVE ANSWER. KATZ TOOK ESPECIAL NOTE
OF SWITCH IN CANADIAN PRICING FROM CANADIAN TO US DOLLARS
EFFECT IS TO INCREASE PRICE FURTHER BY APPROXIMATELY
5 AT PRESENT TIME. FINALLY, HE NOTED SHIFTING CANADIAN
RATIONALE FOR CANADIAN EXPORT PRICE DECISIONS. IN EACH
OF LAST 3 YEARS NEB HAS REFERRED TO COMMODITY VALUE, COST
OF COMPETING FUELS IN US AND REPLACEMENT COSTS OF OIL IN
EASTERN CANADA (NOTING ALSO THAT CANADIAN NATURAL GAS
DID NOT COMPETE WITH IMPORTED FUEL OIL IN EASTERN CANADA).
IT WAS CLEAR THAT OBJECTIVE OF NEB WAS TO EXTRACT THE
LAST CENT FROM WHAT THE TRAFFIC WOULD BEAR. THIS
PRACTICE HAS CAUSED AND WILL AGAIN CAUSE GREAT RESENTMENT
IN US.

4. CHAPPELL INQUIRED WHETHER WE WOULD BE REQUESTING
CONSULTATIONS. KATZ REPLIED IT IS NOT CERTAIN BUT WE
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WOULD BE IN COMMUNICATION WITH CANADIANS AS SOON AS
POSSIBLE. CHRISTOPHER

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NNN

Message Attributes

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Disposition Approved on Date:
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